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COMMODITY MARKETS COUNCIL
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Records Section

January 24, 2008

Via Electronic Mail and Standard Post
David Stawick, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

COMMENT

Re: Proposed Revision of Federal Speculative Position Limits

Dear Mr. Stawick:

The Commodity Markets Council (CMC) submits these comments in support of the Commodity Futures Trading Commission (CFTC or the Commission) proposal to revise the speculative position limits for certain agricultural commodities set out in Commission Regulation 150.2.

CMC is a trade association that represents commodity futures exchanges, regional boards of trade, and numerous industry counterparts in the agriculture and energy businesses, including domestic and multinational commodity merchandisers, processors, millers, refiners, commercial and merchant energy companies, precious and base metal trading firms, and bioenergy producers; US and internationally-based futures commission merchants; food and beverage manufacturers; major transportation companies; and financial institutions.

The activities of our members represent the complete spectrum of commercial uses of the agricultural and energy futures markets – from grain and energy hedging by local country grain elevators to highly sophisticated, high-volume hedging activities supporting domestic and international grain and other agricultural product merchandising, exporting, and processing operations. The businesses of all our non-exchange member firms depend upon the efficient and competitive functioning of the risk management products traded on U.S. futures exchanges.

CMC supports the Commission's proposal to increase the Federal speculative position limits for single-month (not including the spot month) and all-months-combined positions in all commodities except Chicago Board of Trade Oats contracts. CMC also supports the Commission's proposal to maintain parity with respect to the MGEX, KCBT, and CBT Wheat contracts.

The relevance of exchange-traded products to the commercial hedging, financial hedging, and general international and domestic trading communities is fueling the rapid growth experienced by US futures markets. This CFTC proposal will encourage broader participation in our markets, which attracts more volume and more liquidity. Increased volume and liquidity tends to reduce bid/ask spreads and build depth of order book in every market. CMC supports any business initiative or policy, including this proposal, which attracts more participants and more order flow. We commend the Commission for taking this initiative.

Consistent with longstanding CMC policy, CMC again asks the Commission to grant each exchange authority to set its speculative position limits, subject to Commission guidelines and oversight. Core Principle 5(d) of the Commodity Futures Modernization Act (CFMA) requires designated contract markets to adopt position limits where necessary and appropriate, subject to the oversight of the Commission; however, a small subset of agricultural commodities remains subject to a duplicative regulatory structure which requires an exchange to change its rules and then petition the Commission to modify its regulations before an increase can be implemented. This process can take a year or longer. Elimination of this regulatory redundancy would fully implement the core principles of the CFMA for all agricultural commodities; the CFTC would retain all of its oversight powers; and the change would be consistent with the intent of the CFMA to permit more exchange self-regulation in their markets.

Beyond the intent of the CFMA, every exchange is striving to expand its user base, keep customers satisfied, stay competitive with over-the-counter markets, and compete domestically and internationally with other exchanges. In order to succeed, every SRO, whether a public company, private venture, or mutualized member organization, must operate responsibly and in strict compliance with applicable laws and regulations. To do otherwise would risk legal and financial catastrophe. CMC believes that this competitive marketplace creates a greater, not lesser, incentive for exchanges to treat their SRO status and responsibility with the utmost care and respect. Vesting exchanges with the flexibility to set their own speculative position limits poses little risk of irresponsible decisions that would harm the trading public. Yet, granting this freedom would give an exchange one additional means to attract new order flow or to enhance or defend its competitive position domestically or internationally.

While it may seem improbable in today's commodities environment, CMC believes the Commission should consider the possibility that a given futures contract might be successful one day and subsequently lose a large percentage of its open interest within a short period of time. In such a situation, with its interest in market integrity at stake and a close familiarity with the users of its contracts, the exchange is better positioned than the Commission to respond in a timely manner to reduce speculative position limits as the exchange deems prudent. Reasonable application of an exchange's business judgment in this case should be synchronous with federal regulatory authority over position limits.

CMC believes in the well-tested system that intertwines CFTC oversight powers, strong CFTC staff, exchange self-regulation, and quick-response incentives at the exchange level. We believe this existing system, with its overlapping strengths and checks, can easily and successfully accommodate a new regime of exchange-determined position limits that assures market integrity and simultaneously fosters beneficial growth in volume and liquidity from broader market participation.

CMC understands that there are some market participants that believe the activities of large speculators in the markets pose a threat. CMC, however, does not believe this is the case. Futures markets in the enumerated commodities have grown immensely in the last decade. We acknowledge that price volatility has increased, but we do not believe that speculative activity by itself has influenced any price trends of significant magnitude or duration. Record high prices in agricultural commodities developed because of worldwide demand trends, weather, and other factors such as currency fluctuations and economic development. In more recent years, large money flows from "buy-only" financial hedgers seeking representation of raw commodity prices in their investment portfolios have contributed also to volatility and upward price pressure.

Just as exchanges have benefited from higher volumes, producers have benefited from higher prices. CMC believes that speculative activity in futures markets may influence day-to-day prices, but is relatively powerless in the face of these larger, fundamental forces. Our markets today reflect global economics and trends as well as investment flows, not speculative buying power. If prices begin to retreat tomorrow, speculative activity will follow that retreat, not cause it.

In summary, CMC believes that the best way for an exchange to have healthy contracts drawing maximum order flow from all sources, domestic and international, is to operate in a business and policy framework that encourages maximum order flow and liquidity, which minimize bid/ask spreads and lower users' costs incurred entering or exiting the market. CMC supports exchange and CFTC policies that provide the most attractive trading and execution environment. As a general policy matter, exchange-controlled, flexible position limits would be an important step in a continuing process to provide the most attractive business climate for US futures exchanges.

Thank you for the opportunity to comment. Please contact me at (202) 842-0400 if you have questions or would like to discuss these comments.

Sincerely,

Michael D. Walter

MICHAEL D. WALTER
President